

# RatingsDirect®

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## Summary:

### Johnson County, Kansas; General Obligation; General Obligation Equivalent Security

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## Summary:

# Johnson County, Kansas; General Obligation; General Obligation Equivalent Security

### Credit Profile

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|--|------------|-----|
| US\$98.465 mil GO internal imp and rfdg bnds ser 202A due 09/01/2040                   |            |     |
| <i>Long Term Rating</i>  | AAA/Stable | New |
| US\$17.525 mil Lse Purch Rev Rfdg Bnds (Johnson County) ser 2020A due 09/01/2030       |            |     |
| <i>Long Term Rating</i>  | AAA/Stable | New |
| US\$10.765 mil Taxable Lse Purch Rev Rfdg Bnds (Johnson Cnty) ser 2020B due 09/01/2031 |            |     |
| <i>Long Term Rating</i>  | AAA/Stable | New |
| US\$10.155 mil taxable GO rfdg bnds ser 2020B due 09/01/2031                           |            |     |
| <i>Long Term Rating</i>  | AAA/Stable | New |

## Rating Action

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Johnson County, Kan.'s roughly \$98.465 million series 2020A general obligation (GO) internal-improvement and refunding bonds and roughly \$10.155 million series 2020B taxable GO refunding bonds and affirmed its 'AAA' rating, with a stable outlook, on the county's existing GO debt.

S&P Global Ratings also assigned its 'AAA' rating and stable outlook to Johnson County Public Building Commission's (PBC) roughly \$17.525 million series 2020A lease-purchase revenue refunding bonds and roughly \$10.765 million series 2020B taxable lease-purchase revenue refunding bonds, supported by Johnson County, and affirmed its 'AAA' rating, with a stable outlook, on PBC's existing GO-equivalent debt, supported by the county.

The county's full-faith-and-credit pledge and agreement to levy ad valorem property taxes, without limitation as to rate or amount, secure the GO bonds. The county also has GO debt outstanding, partially supported by special assessments levied against properties that benefited from certain improvements. We rate the county's special-assessment-supported debt based on its GO pledge.

Officials intend to use series 2020A GO bond proceeds to finance the construction of various wastewater system improvements, finance special-benefit district improvements, and refinance portions of series 2009B and 2010D internal-improvement bonds for debt-service savings. They also intend to use series 2020B GO bond proceeds to refinance portions of series 2011A internal-improvement bonds for debt-service savings.

Lease-rental payments to PBC from the county secure the revenue bonds. Pursuant to state statute, the county's rentals-payable obligations under the leases for the entire term are exempt from Kansas' cash-basis and budget-law provisions; they are also not subject to annual appropriation, early cancellation, or termination.

Based on the application of our criteria, titled "Issue Credit Ratings Linked To U.S. Public Finance Obligors"

Creditworthiness," published Nov. 20, 2019, on RatingsDirect, we view this as an unconditional county obligation; subsequently, we rate all existing PBC debt on par with the county's general creditworthiness.

Series 2017B, 2018A, 2019A, 2020A, and 2020B PBC issues are subject to Kansas tax-lid law, limiting the power of cities and counties to levy property taxes. Despite these limitations, we consider resources fungible; the ability to manage them supports our view of the obligor's ability and willingness to repay the debt. Therefore, we rate these types of obligations on par with the obligor's general creditworthiness, reflected in the GO debt rating.

Officials plan to use series 2020A PBC bond proceeds to refinance portions of series 2010C and 2010D PBC bonds for debt-service savings. They also plan to use series 2020B PBC bond proceeds to refinance portions of series 2011B PBC bonds for debt-service savings.

County GO bonds are eligible to be rated higher than the sovereign because we think the county can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, we consider U.S. local governments moderately sensitive to national risk.

The county's GO pledge is the primary security for this debt, severely limiting the possibility of negative sovereign intervention in the county's debt repayment or operations. The nation's institutional framework is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of government intervention. The county has considerable financial flexibility, demonstrated by very high general fund balance as a percent of expenditures and very strong liquidity.

### **Credit overview**

Johnson County remains a vibrant and growing area. Recent market value growth supports major revenue stream growth; coupled with very strong fiscal management, this has allowed for the maintenance of adequate budgetary performance and very strong budgetary flexibility and liquidity. What we consider the very strong debt-and-contingent-liability profile somewhat reflects the county's management of significant demand-for-services development and growth. Future credit reviews will likely continue to focus on management's ability to maintain stable and strong finances and affordable debt, pensions, and other postemployment benefits (OPEB) in a growth environment as it manages through COVID-19.

We imagine challenges associated with COVID-19 and the related recession could pressure the county's budgets, as it will most local governments, during the next one year to two years. (For further information, please see the article, titled "The COVID-19 Outbreak Weakens U.S. State And Local Government Credit Conditions," published April 2, 2020.)

In-line with our view of the ongoing economic contraction, we expect sales taxes could lag historical performance. (For further information, please see the article, titled "The U.S. Faces A Longer and Slower Climb From The Bottom," published June 25, 2020.) We, however, do not expect it to have an effect on Johnson County's ability to maintain very strong reserves during the next few fiscal years due to the county's formal minimum-fund-balance policy.

Management will continue to monitor budget-to-actual performance closely and make adjustments as necessary. We

expect budgetary performance will likely remain relatively stable in fiscal 2021 due to management's conservative budgeting and identified cost-control areas. We also think the county's core economic structure and participation in the broad and diverse Kansas City metropolitan statistical area (MSA) will likely contribute to overall rating stability. Therefore, we do not expect to change our rating during the next few years. Although our outlook is generally for two years, we recognize the potential for downside risk because of COVID-19 and the related recession during the next six months to 12 months.

The rating also reflects our opinion of the county's:

- Very strong economy, with access to a broad and diverse MSA;
- Very strong financial management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results we expect could deteriorate in the near term relative to fiscal 2019, which closed with operating surpluses in the general fund and at the total governmental-fund level;
- Very strong budgetary flexibility, with available fund balance in fiscal 2019 at 29% of operating expenditures;
- Very strong liquidity, with total government available cash at 116.7% of total governmental-fund expenditures and 173.7x governmental debt service, and access to external liquidity we consider exceptional;
- Very strong debt-and-contingent-liability position, with debt service carrying charges at less than 1% of expenditures and net direct debt that is 67.3% of total governmental-fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 66.1% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.

### **Environmental, social, and governance (ESG) factors**

We have analyzed the county's environmental factors, including health-and-safety risks posed by COVID-19, coupled with social-and-governance risks relative to the economy; financial management; budgetary performance; and budgetary flexibility, as well as its debt-and-liability profile, and have determined all are in-line with our view of the sector standard. While tornadoes and flooding are the greatest environmental threats to the county, it has made a significant investment in stormwater mitigation; we understand new constructions conform to a higher standard to offset severe-weather conditions.

## **Stable Outlook**

### **Downside scenario**

We could lower the rating if, however, unlikely, economic indicators were to weaken significantly or available fund balance were to decrease below 15% of expenditures, diminishing our view of financial management policies and the county's adherence to such policies.

## **Credit Opinion**

### **Very strong economy**

We consider the county's economy very strong. Johnson County, with a population estimate of 593,510, is in the Kansas City MSA, which we consider broad and diverse. Projected per capita effective buying income is 144% of the national level and per capita market value is \$144,641. Overall, market value has grown by 4.6% during the past year to \$85.8 billion in fiscal 2020. Unemployment, historically lower than state and national levels, was 2.8% in 2019 and 10.6% in April 2020 due to COVID-19.

The county is the MSA's most densely populated and wealthiest. Overland Park, the county's largest city, is just 12 miles from downtown Kansas City, Mo. and Kansas City, Kan. Olathe serves as the county's seat. Leading county employers include:

- Sprint (6,000 employees),
- Olathe Unified School District No. 233 (4,800),
- Garmin International Inc. (4,100),
- Johnson County government (4,000), and
- Shawnee Mission Unified School District (3,500).

We understand the county's main industries, supporting its economy, have not been greatly affected by COVID-19 compared to smaller businesses and restaurants and bars. With new construction ongoing during the pandemic, management is projecting 5.2% property tax base growth in fiscal 2021.

### **Very strong management**

We view the county's financial management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Management uses extensive planning and analysis to devise revenue and expenditures based on historical trends and outside sources for its annual budget. Management provides the county board with quarterly reports on budget-to-actual results and investments. In addition, the county maintains a five-year financial plan that identifies potential revenue and expenditure pressure; it updates the plan annually as part of the budget process. The county also maintains a formal five-year capital plan it updates annually.

A formal debt-management policy governs issuance, including tying bond terms to the asset's useful life, and details a plan for potential derivative use, if management considers it prudent. We recognize the county's own investment-management policy parallels state regulations. The formal reserve policy calls for maintaining a minimum reserve at 20%-25% of estimated annual general fund revenue. If general fund reserves decrease below the minimum, management has 90 days to develop a plan to rebuild reserves to that level.

### **Adequate budgetary performance**

Johnson County's budgetary performance is adequate, in our opinion. The county had operating surpluses at 5.3% of

expenditures in the general fund and 6.7% across all governmental funds in fiscal 2019. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from fiscal 2019 results during the next few fiscal years.

We have adjusted for, what we view as, recurring general fund transfers, recurring transfers across all governmental funds, and debt-financed expenditures. Our forward-looking opinion of adequate budgetary performance reflects uncertainty concerning the effect and duration of COVID-19 and the related recession on the county.

Officials largely attribute fiscal 2019 performance to increased tax revenue and investment earnings that increased total general fund revenue to \$11.4 million since fiscal 2018. In fiscal 2019, property taxes generated about 36.4% of governmentwide revenue, followed by charges for services at 35.7% and sales taxes at 14.5%.

For fiscal 2020, management is projecting to use \$5.1 million in reserves with about \$2.5 million related to the presidential election and the remaining budgeted for one-time capital expenditures, all of which was planned for, and included in, the adopted fiscal 2020 budget. Despite the planned use of reserves, we understand the county is projecting to add about \$17 million to fund balance by fiscal year-end 2020 due partially to the fiscal 2019 surplus and cost-control measures management has identified in response to COVID-19. Officials have also identified areas for additional reductions they can discuss with the board, if needed.

The fiscal 2021 budget reflects a \$6.7 million fund-balance drawdown for one-time capital projects. We note actual general fund performance and performance across all governmental funds have historically been, at least, breakeven despite planned reserve spending in the budget due largely to management's conservative revenue-projection approach.

### **Very strong budgetary flexibility**

Johnson County's budgetary flexibility is very strong, in our view, with available fund balance in fiscal 2019 at 29% of operating expenditures, or \$92.9 million.

Management has consistently maintained reserves in accordance with its formal policy. We do not expect reserves will likely weaken materially despite a planned drawdown of about \$5.1 million in fiscal 2020 and \$6.7 million in fiscal 2021 for one-time capital projects. Therefore, we expect budgetary flexibility will likely remain very strong during the next few fiscal years, supported by its formal minimum-reserve policy and five-year forecast of maintaining reserves above 20% of expenditures through fiscal 2025.

### **Very strong liquidity**

In our opinion, Johnson County's liquidity is very strong, with total government available cash at 116.7% of total governmental-fund expenditures and 173.7x governmental debt service in fiscal 2019. In our view, the county has exceptional access to external liquidity if necessary.

We expect total government cash will likely remain very strong during the next two fiscal years. In our opinion, the county's issuance of GO, revenue, lease-revenue, and special-tax bonds during the past 15 years demonstrates its exceptional access to external liquidity. Investments principally include U.S. Treasury and agency securities, certificates of deposit, and cash in money-market funds; we consider these investments low risk. The county does not have contingent liabilities that could cause liquidity pressure.

### **Very strong debt-and-contingent-liability profile**

In our view, Johnson County's debt-and-contingent-liability profile is very strong. Total governmental-fund debt service is less than 1% of total governmental-fund expenditures, and net direct debt is 67.3% of total governmental-fund revenue. Overall net debt is low at 2.9% of market value and officials plan to retire about 66.1% of direct debt during 10 years, which are, in our view, positive credit factors.

Total direct debt is roughly \$945.5 million. Enterprise funds support more than half of total direct debt; consistent with our debt-statement analysis criteria, we consider enterprise funds fully self-supporting that have passed our coverage test. We understand officials currently plan to issue roughly \$102.6 million of additional GO and PBC debt in fiscal 2021. Since we do not consider this additional amount significant, we expect the debt-and-contingent-liability profile will likely remain very strong during the next two years. We, however, note our view of debt could weaken if additional debt issuance were to result in scheduled repayments over 10 years decreasing below 65%.

The county does not have any direct-purchase obligations with acceleration provisions in its portfolio. It, however, has traditional fixed-rate GO and revenue debt.

### **Pension and OPEB**

- We do not view pension and OPEB liabilities as an immediate credit pressure because required contributions currently make up a small portion of total governmental expenditures.
- If required material contributions were to increase unexpectedly during the next few fiscal years, we think this would not have an effect on fiscal stability due to sizable reserves officials could use for contingencies, if needed.
- Although the county funds OPEB on a pay-as-you-go basis, which, due to claims volatility and medical-cost and demographic trends, is likely to lead to escalating costs, it could amend contribution requirements.

At June 30, 2019, the latest measurement date, the county participates in:

- Kansas Public Employees' Retirement System (KPERs), which is 69.9% funded, with a net pension liability equal to \$205 million; and
- Johnson County's single-employer, defined-benefit OPEB plan that provides health care to retirees and their dependents, including medical, dental, and vision.

Retiree coverage terminates when either another employer's health plan covers the retiree or the retiree reaches Medicare eligibility age, which is currently 65. Spousal coverage terminates when either another employer's health plan covers the retiree or the retiree reaches Medicare eligibility or dies. At Dec. 31, 2019, the county did not fund OPEB; the net OPEB liability was \$17.8 million.

The county's combined required pension and actual OPEB contribution totaled just 5.3% of total governmental-fund expenditures in fiscal 2019: just 0.2% represented OPEB payments. The state actuarially determines KPERs contributions, and the county has historically funded annual required costs in full.

Actuarial assumptions include a 7.75% discount, which we view as aggressive, representing market risk and resulting in contribution volatility if KPERs fails to meet assumed investment targets. In addition, contributions are likely to grow due to level-payroll funding rather than level-dollar contributions, which would result in consistent payments.

## Strong institutional framework

The institutional framework score for Kansas counties with more than \$275,000 in annual gross receipts and more than \$275,000 in GO or revenue bonds outstanding is strong.

## Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2019 Update Of Institutional Framework For U.S. Local Governments

| Ratings Detail (As Of July 20, 2020)  |            |          |
|---|------------|----------|
| Johnson Cnty GO   |            |          |
| Long Term Rating  | AAA/Stable | Affirmed |
| Johnson Cnty GO   |            |          |
| Long Term Rating  | AAA/Stable | Affirmed |
| Johnson Cnty GO   |            |          |
| Long Term Rating  | AAA/Stable | Affirmed |
| Johnson Cnty GO   |            |          |
| Long Term Rating  | AAA/Stable | Affirmed |
| Johnson Cnty GO   |            |          |
| Long Term Rating  | AAA/Stable | Affirmed |
| <b>Johnson Cnty Pub Bldg Comm, Kansas</b>   |            |          |
| Johnson Cnty, Kansas  |            |          |
| Johnson Cnty Pub Bldg Comm (Johnson Cnty) lse purch rev bnds (Johnson Cnty) (Courthouse And Medical Examiner's Fac Proj) ser 2018A due 9/1/2027 |            |          |
| Long Term Rating  | AAA/Stable | Affirmed |
| Johnson Cnty Pub Bldg Comm (Johnson Cnty) GO  |            |          |
| Long Term Rating  | AAA/Stable | Affirmed |
| Johnson Cnty Pub Bldg Comm (Johnson Cnty) GOEQUIV   |            |          |
| Long Term Rating  | AAA/Stable | Affirmed |
| Johnson Cnty Pub Bldg Comm (Johnson Cnty) GOEQUIV   |            |          |
| Long Term Rating  | AAA/Stable | Affirmed |
| Johnson Cnty Pub Bldg Comm (Johnson Cnty) GOEQUIV   |            |          |
| Long Term Rating  | AAA/Stable | Affirmed |
| Johnson Cnty Pub Bldg Comm (Johnson Cnty) GOEQUIV   |            |          |
| Long Term Rating  | AAA/Stable | Affirmed |
| Johnson Cnty Pub Bldg Comm (Johnson Cnty) GOEQUIV   |            |          |
| Long Term Rating  | AAA/Stable | Affirmed |



| Ratings Detail (As Of July 20, 2020) (cont.)      |            |          |
|---|------------|----------|
| Johnson Cnty Pub Bldg Comm (Johnson Cnty) GOEQUIV |            |          |
| Long Term Rating                                  | AAA/Stable | Affirmed |
| Johnson Cnty Pub Bldg Comm (Johnson Cnty) GOEQUIV |            |          |
| Long Term Rating                                  | AAA/Stable | Affirmed |
| Johnson Cnty Pub Bldg Comm (Johnson Cnty) GOEQUIV |            |          |
| Long Term Rating                                  | AAA/Stable | Affirmed |
| Johnson Cnty Pub Bldg Comm (Johnson Cnty) GOEQUIV |            |          |
| Long Term Rating                                  | AAA/Stable | Affirmed |

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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